

Message Text

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ACTION EB-07

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 9204

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AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: EAGR, MY

SUBJ: MEETING OF EXPERTS OF ASEAN MAJOR NATURAL RUBBER
PRODUCERS, MARCH 3 - 5

REF: KUALA LUMPUR #

1. SUMMARY. DEPUTY MINISTER, MINISTRY OF PRIMARY INDUS-
TRIES SAYS FLOOR AND CEILING PRICES OF NATURAL RUBBER
BUFFER STOCK AGREED UPON BY EXPORTS. NEXT STEP IS TO
OBTAIN APPROVAL GOVTS OF THAILAND, INDONESIA, AND
MALAYSIA. RUBBER BUFFER
STOCK SCHEME WOULD BE SIMILAR
INTERNATIONAL TIN COUNCIL ARRANGEMENT INCLUDING CON-
FRONTATIONS WITH PRODUCERS AT UNSPECIFIED
FUTURE DATE.
FINANCING OF BUFFER STOCK NOT YET SET BUT EXPLORING POS-
SIBLE INTERNATIONAL FINANCING AND FUNDING BY OPEC
COUNTRIES. PLAN WOULD INCLUDE OTHER RUBBER PRODUCING
COUNTRIES IN SCHEMES ONCE THAILAND, INDONESIA, AND
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MALAYSIA REACH AGREEMENT. GOM PLEASED WITH USG RUBBER

STOCKPILE DISPOSAL PROGRAM OVER PAST COUPLE YEARS AND HOPES SAME POLICIES WILL BE FOLLOWED IN FUTURE. IT APPEARS FROM OTHER SOURCES THAT PROPOSED FLOOR AND CEILING FOR BUFFER STOCK IS M\$1.40 AND M\$1.80 PER KILO (US\$.29 TO US\$.37 PER POUND).

2. EMBASSY DISCUSSED RESULTS SUBJECT MEETING (TEXT OF COMMUNIQUE TRANSMITTED REFTEL) WITH DEPUTY MINISTER, MINISTRY OF PRIMARY INDUSTRIES PAUL LEONG WHO MADE FOLLOWING COMMENTS:

A. FLOOR AND CEILING PRICES OF BUFFER STOCK. EXPERTS AT MEETING REACHED AGREEMENT ON PROPOSED FLOOR AND CEILING PRICES BUT LIMITS COULD NOT BE REVEALED THIS TIME SINCE RECOMMENDATIONS MUST BE SUBMITTED RESPECTIVE GOVTS FOR APPROVAL. PRICE RANGE WOULD BE REASONABLE BECAUSE MAJOR PRODUCERS EXTREMELY SENSITIVE TO SUBSTITUTION BY SYNTHETIC RUBBER. AT SAME TIME, PRICE SHOULD BE HIGH ENOUGH CONTINUE ENCOURAGE INVESTMENT IN RUBBER INDUSTRY OVER LONGER PERIOD TO ASSURE SUPPLY MEETING DEMAND. OBJECTIVE IS TO STABILIZE RUBBER PRICES IN LONG RUN AND NOT JUST TEMPORARY MEASURE TO MEET CURRENT DOWNTURN IN DEMAND (QND THEREFORE PRICE) FOR NATURAL RUBBER. EMPHASIZED THAT SCHEME IS NOT A CARTEL, BUT SHOULD BE EQUATED TO INTERNATIONAL TIN COUNCIL ARRANGEMENT BETWEEN PRODUCERS AND CONSUMERS.

B. FINANCING OF BUFFER STOCK. NOTHING SET THIS TIME BUT EXPLORING ALL AVENUES WHICH INCLUDE DIRECT FINANCING BY IMF (WHICH REQUIRES AMENDMENT OF ARTICLES) AND USE OF FUNDS FROM OPEC COUNTRIES AS DISCUSSED AT RECENT DAKAR MEETING. LATTER IN GOM VIEW STILL OPEN QUESTION.

C. COOPERATION WITH CONSUMERS. GOM ENVISIONS FOLLOWING SCENARIO: FIRSTLY, THAILAND, INDONESIA, AND MALAYSIA REACH AGREEMENT ON BUFFER STOCK OPERATIONS AND PRODUCTION CONTROL SCHEME INCLUDING MECHANISM TO ADMINISTER THESE PROGRAMS. AS THEY PRODUCE 85 PERCENT OF WORLD'S NATURAL RUBBER, ESSENTIAL THEY FIRST AGREE AMONG THEMSELVES. SECONDLY, EXPAND MEMBERSHIP IN SCHEMES TO INCLUDE OTHER NATURAL RUBBER PRODUCING COUNTRIES, ALTHOUGH THEIR PARTICIPATION NOT ESSENTIAL. LIMITED OFFICIAL USE

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THIRDLY, CONSULT WITH CONSUMERS IN AN INTERNATIONAL TIN COUNCIL TYPE ARRANGEMENT. DECLINED COMMENT ON PROJECTED TIMETABLE TO ACCOMPLISH ABOVE STEPS, BUT HOPED TO MOVE RAPIDLY IN ACHIEVING INITIAL STEP OF REACHING UNDERSTANDING AMONG THREE MAJOR PRODUCERS.

D. U.S. RUBBER STOCKPILE DISPOSALS. DEPUTY MINISTER STATED THAT GOM PLEASED WITH USG RUBBER STOCKPILE DISPOSAL POLICIES AND PROCEDURES OVER PAST SEVERAL

YEARS AND HOPES LIKE POLICIES WILL CONTINUE IN FUTURE.

3. DEPUTY MINISTER LEONG STRESSED SOCIAL AND POLITICAL IMPORTANCE IN ADDITION TO ECONOMIC IMPORTANCE OF RUBBER TO GOM. ACCORDING TO LEONG, 3.5 MILLION PERSONS OUT OF TOTAL POPULATION OF APPROX 10.5 MILLION IN MALAYSIA ARE DEPENDENT ECONOMICALLY UPON NATURAL RUBBER. SUBSTANTIAL NUMBER OF THESE PERSONS ARE INDIGENOUS MALAYS WHICH POSES SPECIAL POLITICAL CONSIDERATIONS FOR GOM, AS EVIDENCED BY DEMONSTRATION OF RUBBER SMALLHOLDERS IN LATE 1974 ON DECLINING RUBBER PRICES (SEE PREVIOUS EMBASSY REPORTS). GOM BELIEVES RUBBER WILL CONTINUE AS MAJOR INDUSTRY IN MALAYSIA AND GOM DETERMINED TAKE STEPS TO STABILIZE PRICES TO AVOID VIOLENT FLUCTUATIONS AND ATTENDANT PROBLEMS WHICH HAVE PLAGUED MALAYSIA IN TIMES PAST.

4. COMMENT. EMBASSY BELIEVES GOM PERCEIVES STABILIZATION OF RUBBER PRICES AS MATTER OF HIGHEST PRIORITY AND WILL CONTINUE STRIVE FOR EFFECTIVE BUFFER STOCK AND PRODUCTION CONTROL SCHEME. WE UNDERSTAND, IN THIS REGARD, THAT MALAYSIA WOULD HAVE PROCEEDED UNILATERALLY IF AGREEMENT HAD NOT BEEN REACHED IN SUBJECT MEETING. AS IS THEIR STYLE, GOM WILL PROBABLY MOVE FORWARD JUDICIOUSLY GIVING CAREFUL CONSIDERATION TO EACH STEP THEY TAKE. GOM WELL AWARE SHORT LIFE SPAN SOME PREVIOUS COMMODITY ARRANGEMENTS AMONG PRODUCERS AND DETERMINED AVOID REPEATING MISTAKES OF PAST. FROM OTHER CONVERSATIONS IT APPEARS THAT PROPOSED BUFFER FLOOR PRICE IS M\$1.40 PER KILO FOR RSS 1. WE ARE LESS CERTAIN OF PROPOSED CEILING PRICE BUT FROM CONVERSATION REGARDING COMPETITIVENESS OF NATURAL RUBBER AND SYNTHETIC RUBBER IT APPEARS THAT CEILING ENVISAGED LIMITED OFFICIAL USE

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IS M\$1.80 PER KILO FOR RSS 1 GIVEN PRESENT PRICES OF PETROLEUM. AT PRESENT RATE OF EXCHANGE (US\$1.00 EQUALS M\$2.20), THIS WOULD BE RANGE FROM US\$.29 TO US\$.37 PER POUND.
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